

**Testimony on behalf of
Building Owners and Managers Association of Metro Detroit
House Tax Policy Committee**

February 19, 2014

Good morning distinguished committee members. I am Jim Jonas Executive Vice President of Building Operations and Leasing for REDICO testifying on behalf of Building Owners & Managers Association of Metro Detroit; with me is Janet Langlois, Executive Director for BOMA. Thank you for this opportunity to address you regarding this important issue.

The Building Owners and Managers Association was founded in 1908 and is comprised of over 400 members representing over 250 million square feet of office, retail and industrial space in southeast Michigan. Among our most recognizable member-owners are REDICO, Schostak Brothers & Company, the Farbman Group, Bedrock Real Estate Services, KIRCO, Etkin Equities, Newmark Grubb Knight Frank, CB Richard Ellis, Fordland, Hines, General Services Administration and Ashley Capital.

BOMA members represent every aspect of our industry from building owners, building managers, real estate brokers, and various suppliers including landscapers, roofers, janitorial services, utilities, construction firms and architects. We are primarily comprised of business owners who have made the choice to invest in Michigan and create jobs. In the Metro Detroit area over 63,000 jobs are supported.

After enduring the last 10 years in an upside down market --- tumultuous for most and disastrous for others-- the commercial real estate industry is recovering, slowly. Commercial property in Michigan continues to suffer from vacancy rates among the highest in the nation leaving BOMA members with building vacancy rates in some cities as high as 35% with an average of 23.4%. It will likely be another 10 years before current vacancies are absorbed. These vacancies drive rent concessions and increase the business' operational expenses.

This is not a new issue, and over the years several legislators have attempted to craft a legislative fix to this constitutional problem. We believe the proposal, SB 114, as introduced, remains to be a constitutional issue of taxation in its endeavor to eliminate the so-called 'additions and losses' section of the state property tax code—a provision upheld in 2002 by the Michigan Supreme Court; loss based on occupancy existed prior to Proposal A, any legislative attempt to eliminating gains or losses going forward will still be unconstitutional.

Further, the majority of tax appeals at this time are based on true cash value—a decrease in value-- of which 'additions and losses' factors only a very small consideration in the property's assessment. This is reflective of the economy, not based on occupancy, and will accomplish little to nothing to assist struggling cities to recapture property tax revenues that just do not exist in the

current market. Indeed the workplace is changing. As companies right-size they are occupying less space to leverage technology with cost savings and promote mobility and collaboration amongst its workforce. Additionally, the Detroit CBD submarket continues to grow as major companies continue migration downtown from suburban markets.

Owners of commercial property have a strongly vested interest in healthy vibrant cities, too. A decline in city services is directly related to the value of their investments in these very communities. Increased costs to business, including any increase in property taxes are inconsistent with the legislature's stated goals of lowering unemployment and strengthening Michigan's business climate. BOMA encourages a common sense approach to settlements of these disputes. Many property owners accept adjustments voluntarily negotiated between individual owners and municipalities; settlements of 20-40% of what litigation in the appeals process would have afforded.

Again, thank you for this opportunity and we look forward to answering any questions you may have regarding this issue. We are committed to working with the sponsor and committee members in order to find a fair solution for both our communities and the businesses that keep them strong and help them grow.

Just FYI on CRE Market Realities

- In many commercial dense cities where out of every \$1.00 spent, .60 cents is derived from commercial and industrial property tax.
- Nationally, commercial property values have fallen more than 40 percent.
- For each \$1 spent on office buildings, the U.S. economy gained \$2.57

For more information on BOMA, its members or issue positions please contact:

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